



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
TAYLOR COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2001**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE TAYLOR COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2001**

The Auditor of Public Accounts has completed the Taylor County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Report Comment:**

All Claims Should Be Presented To Fiscal Court For Review And Approval Prior To Payment

#### **Financial Condition:**

Cash balances increased by \$355,967 from the prior fiscal year, resulting in a cash surplus of \$1,299,598 as of June 30, 2001. Receipts increased by \$3,045,712 and disbursements increased by \$3,349,062.

#### **Debt Obligations:**

Operating lease principal agreements totaled \$613,617 as of June 30, 2001. Future principal and interest payments of \$690,469 are needed to meet these obligations.

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Eddie Rogers, Taylor County Judge/Executive

Members of the Taylor County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Taylor County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Taylor County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation. Other auditors whose report has been furnished to us audited those financial statements, and our opinion, insofar as it relates to the amounts included for the Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Taylor County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Eddie Rogers, Taylor County Judge/Executive  
Members of the Taylor County Fiscal Court

In our opinion, based on our audit and on the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Taylor County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2002 on our consideration of Taylor County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Taylor County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following area of noncompliance:

- All Claims Should Be Presented To Fiscal Court For Review And Approval Prior To Payment

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 22, 2002



TAYLOR COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

**Fiscal Court Members:**

Eddie Rogers	County Judge/Executive
Bobby Kirtley	Magistrate
Orville Newton	Magistrate
James E. Cochran	Magistrate
Marshall Caulk	Magistrate
Edward R. Gorin	Magistrate
J.W. McFarland	Magistrate

**Other Elected Officials:**

Craig Cox	County Attorney
Rodney Burress	Jailer
Randall G. Phillips	County Clerk
Sam Newcomb	Circuit Court Clerk
John E. Shipp	Sheriff
Julie Shields	Property Valuation Administrator
Terry M. Dabney	Coroner

**Appointed Personnel:**

Maxine White	County Treasurer
Sherry Kerr	Occupational Tax Collector



STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS



TAYLOR COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets

General Fund Type

General Fund:			
Cash	\$	650,283	
Road and Bridge Fund:			
Cash		136,670	
Jail Fund:			
Cash		53,489	
Local Government Economic Assistance Fund:			
Cash		2,569	
Fire Protection Fund:			
Cash		726	
Payroll Revolving Account - Cash		2,155	
Deferred Compensation Account - Cash		<u>1,335</u>	\$ 847,227

Special Revenue Fund Type

Community Development Block Grant Fund:			
Cash	\$	5	
Special Fund:			
Cash		5,541	
State Fund:			
Cash		41,667	
Tebbs Bend Fund:			
Cash		350,024	
Wireless Fund:			
Cash		<u>58,624</u>	<u>455,861</u>
Total Assets			<u>\$ 1,303,088</u>

The accompanying notes are an integral part of the financial statements.

TAYLOR COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2001  
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Types

Payroll Revolving Account	\$	2,155	
Deferred Compensation Plan Account		<u>1,335</u>	\$ 3,490

Fund Balances

Reserved:

General Fund Type

Fire Protection Fund			726
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Special Revenue Fund Type

Community Development Block Grant Fund	\$	5	
Special Fund		5,541	
State Fund		41,667	
Tebbs Bend Fund		350,024	
Wireless Fund		<u>58,624</u>	455,861

Unreserved:

General Fund Type

General Fund	\$	650,283	
Road and Bridge Fund		136,670	
Jail Fund		53,489	
Local Government Economic Assistance Fund		<u>2,569</u>	843,011
Total Liabilities and Fund Balances			<u>\$ 1,303,088</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

TAYLOR COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 6,132,345	\$ 3,537,803	\$ 1,140,456	\$ 98,716
Transfers In	1,011,886			981,094
Borrowed Money	360,080			
Kentucky Advance Revenue Program	1,698,800	1,698,800		
Total Cash Receipts	<u>\$ 9,203,111</u>	<u>\$ 5,236,603</u>	<u>\$ 1,140,456</u>	<u>\$ 1,079,810</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,416,297	\$ 2,575,647	\$ 1,230,194	\$ 681,806
Public Courthouse Corporation Fund - Interest on Borrowed Money	22,344			
Transfers Out	1,011,886	1,011,886		
Borrowed Money Repaid	697,817			360,081
Kentucky Advance Revenue Program Repaid	1,698,800	1,698,800		
Total Cash Disbursements	<u>\$ 8,847,144</u>	<u>\$ 5,286,333</u>	<u>\$ 1,230,194</u>	<u>\$ 1,041,887</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 355,967	\$ (49,730)	\$ (89,738)	\$ 37,923
Cash Balance - July 1, 2000	<u>943,631</u>	<u>700,013</u>	<u>226,408</u>	<u>15,566</u>
Cash Balance - June 30, 2001	<u>\$ 1,299,598</u>	<u>\$ 650,283</u>	<u>\$ 136,670</u>	<u>\$ 53,489</u>

The accompanying notes are an integral part of the financial statements.



TAYLOR COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
Fiscal Year Ended June 30, 2001  
(Continued)

General Fund Type		Capital Projects Fund Type	Special Revenue Fund Type	
Local Government Economic Assistance Fund	Fire Protection Fund	Public Courthouse Corporation Fund	Community Development Block Grant Fund	Special Fund
\$ 2,742	\$ 1,300	\$ 360,080	\$ 505,659 11,780	\$ 38,559 19,012
\$ 2,742	\$ 1,300	\$ 360,080	\$ 517,439	\$ 57,571
\$ 1,391	\$ 1,000	\$ 22,344	\$ 517,434	\$ 52,030
\$ 1,391	\$ 1,000	\$ 360,080	\$ 517,434	\$ 52,030
\$ 1,351 1,218	\$ 300 426	\$ 0	\$ 5	\$ 5,541
\$ 2,569	\$ 726	\$ 0	\$ 5	\$ 5,541

The accompanying notes are an integral part of the financial statements.

TAYLOR COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 Fiscal Year Ended June 30, 2001  
 (Continued)

	<u>Special Revenue Fund Type</u>		
<u>Cash Receipts</u>	<u>Pride Fund</u>	<u>State Fund</u>	<u>Adanta Fund</u>
Schedule of Operating Revenue	\$ 15,000	\$ 267,918	\$ 115,544
Transfers In			
Borrowed Money			
Kentucky Advance Revenue Program			
Total Cash Receipts	<u>\$ 15,000</u>	<u>\$ 267,918</u>	<u>\$ 115,544</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 15,000	\$ 226,251	\$ 115,544
Public Courthouse Corporation Fund-			
Interest On Borrowed Money			
Transfers Out			
Borrowed Money Repaid			
Kentucky Advance Revenue Program Repaid			
Total Cash Disbursements	<u>\$ 15,000</u>	<u>\$ 226,251</u>	<u>\$ 115,544</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$	\$ 41,667	\$
Cash Balance - July 1, 2000			
Cash Balance - June 30, 2001	<u>\$ 0</u>	<u>\$ 41,667</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

TAYLOR COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
Fiscal Year Ended June 30, 2001  
(Continued)

<u>Special Revenue Fund Type</u>	
<u>Tebbs Bend Fund</u>	<u>Wireless Fund</u>
\$ 350,024	\$ 58,624
<u>\$ 350,024</u>	<u>\$ 58,624</u>
\$	\$
<u>\$ 0</u>	<u>\$ 0</u>
\$ 350,024	\$ 58,624
<u>\$ 350,024</u>	<u>\$ 58,624</u>

The accompanying notes are an integral part of the financial statements.

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Taylor County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Public Courthouse Corporation and Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation as part of the reporting entity.

The Public Courthouse Corporation is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management has included the Public Courthouse Corporation as a component unit, and the entity's financial activity was blended with that of the Fiscal Court.

The Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation is a legally separate entity. The fiscal court is able to impose its will on the hospital's governing body and is entitled to any assets if the hospital is sold. Therefore, management has included this entity as a component unit, and the entity's financial activity is discretely presented in Appendix B.

Additional - Taylor County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Taylor County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Taylor County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Taylor County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and Fire Protection Fund.

2) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Public Courthouse Corporation Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

3) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Special Revenue Fund Type includes the following county funds: Community Development Block Grant Fund, Special Fund, Pride Fund, State Fund, Adanta Fund, Tebbs Bend Fund, and Wireless Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Taylor County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Courthouse Corporation Fund (Capital Projects Fund) and the Tebbs Bend Fund (Special Revenue Fund). The Department for Local Government does not require the Public Courthouse Corporation Fund to be budgeted. However, a formal budget should have been adopted for the Tebbs Bend Fund. Although no expenditures were made from this fund, they received \$350,024 in federal revenues.

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 4. Lease-Purchase Agreements

- A. On July 29, 1997, the Taylor County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the purchase of Sheriff's cars and equipment. The principal was \$49,833 at a variable interest rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2001 is \$12,564. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	\$ 286	\$ 10,748
2003	9	1,816
Totals	<u>\$ 295</u>	<u>\$ 12,564</u>

- B. On June 7, 1999, the Taylor County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the purchase of rescue vehicles. The principal was \$59,952 at a variable interest rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2001 is \$37,391. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	\$ 1,185	\$ 11,974
2003	732	12,427
2004	261	12,990
Totals	<u>\$ 2,178</u>	<u>\$ 37,391</u>

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 4. Lease-Purchase Agreements (Continued)

- C. On August 2, 1999, the Taylor County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the purchase of dump trucks. The principal was \$92,580 at a variable interest rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2001 is \$60,777. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	\$ 1,944	\$ 18,376
2003	1,248	19,072
2004	<u>542</u>	<u>23,329</u>
Totals	<u>\$ 3,734</u>	<u>\$ 60,777</u>

- D. On October 14, 1999, the Taylor County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the purchase of equipment for 911. The principal was \$300,000 at a variable interest rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2001 is \$206,747. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	\$ 6,719	\$ 59,180
2003	4,462	61,419
2004	2,119	63,744
2005	<u>170</u>	<u>22,404</u>
Totals	<u>\$ 13,470</u>	<u>\$ 206,747</u>



TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 4. Lease-Purchase Agreements (Continued)

- E. On April 4, 2001, the Taylor County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the purchase of equipment for 911. The principal was \$81,000 at a variable interest rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2001 is \$81,000. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	\$ 2,796	\$ 15,000
2003	2,219	16,000
2004	1,621	16,000
2005	1,007	17,000
2006	<u>370</u>	<u>17,000</u>
Totals	<u>\$ 8,013</u>	<u>\$ 81,000</u>

- F. On April 4, 2001, the Taylor County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the purchase of a fire truck. The principal was \$215,138 at a variable interest rate for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2001 is \$215,138. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	\$ 8,742	\$ 18,000
2003	7,984	18,000
2004	7,208	19,000
2005	6,391	20,000
2006	5,532	21,000
Thereafter	<u>13,305</u>	<u>119,138</u>
Totals	<u>\$ 49,162</u>	<u>\$ 215,138</u>

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 4. Lease-Purchase Agreements (Continued)

- G. On April 5, 2001, the Taylor County Fiscal Court entered into a lease agreement for \$360,080 with the Kentucky Association of Counties Leasing Trust (KACoLT). The proceeds from this lease were used to pay principal and interest on an existing note with Taylor County Bank. On June 27, 2001, Taylor County Fiscal Court paid this lease agreement in full.

Note 5. Insurance

For the fiscal year ended June 30, 2001, Taylor County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



TAYLOR COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 3,099,006	\$ 3,537,803	\$ 438,797
Road and Bridge Fund	1,114,401	1,140,456	26,055
Jail Fund	95,382	98,716	3,334
Local Government Economic Assistance Fund	2,050	2,742	692
Fire Protection Fund	1,000	1,300	300
<u>Special Revenue Fund Type</u>			
Community Development Block Grant Fund	687,436	505,659	(181,777)
Special Fund	62,465	38,559	(23,906)
Pride Fund	15,000	15,000	
State Fund	350,000	267,918	(82,082)
Adanta Fund	200,000	115,544	(84,456)
Wireless Fund	49,002	58,624	9,622
Totals	<u>\$ 5,675,742</u>	<u>\$ 5,782,321</u>	<u>\$ 106,579</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 5,675,742	
Add: Budgeted Prior Year Surplus		884,443	
Less: Budgeted Other Financing Uses		<u>(360,081)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 6,200,104</u>	

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SCHEDULE OF OPERATING REVENUE





TAYLOR COUNTY  
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>		
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
Taxes	\$ 3,024,797	\$ 3,024,797	\$
In Lieu Tax Payments	12,964	12,964	
Excess Fees	159,272	159,272	
Licenses and Permits	83,288	83,288	
Intergovernmental Revenues	2,577,819	1,227,526	1,350,293
Charges for Services	127,121	127,121	
Miscellaneous Revenues	51,778	51,778	
Interest Earned	95,306	94,271	1,035
Total Operating Revenue	<u>\$ 6,132,345</u>	<u>\$ 4,781,017</u>	<u>\$ 1,351,328</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



TAYLOR COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 918,508	\$ 837,336	\$ 81,172
Protection to Persons and Property	1,556,366	1,511,674	44,692
General Health and Sanitation	120,250	112,337	7,913
Social Services	22,076	16,110	5,966
Recreation and Culture	103,000	86,261	16,739
Transportation Facilities and Services	9,600	9,241	359
Roads	1,212,744	1,116,566	96,178
Airports	37,316	37,316	
Debt Service	25,000	6,701	18,299
Capital Projects	25,695		25,695
Administration	801,296	756,496	44,800
Total Operating Budget - All General Fund Types	\$ 4,831,851	\$ 4,490,038	\$ 341,813
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	1,698,800	1,698,800	
Jail Lease - Principal	360,081	360,081	
TOTAL BUDGET - ALL GENERAL FUND TYPES	\$ 6,890,732	\$ 6,548,919	\$ 341,813

TAYLOR COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 Fiscal Year Ended June 30, 2001  
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 49,002	\$	\$ 49,002
General Health and Sanitation	15,000	15,000	
Social Services	200,000	115,544	84,456
Administration	1,104,251	795,715	308,536
Total Operating Budget - All Special Revenue Fund Types	<u>\$ 1,368,253</u>	<u>\$ 926,259</u>	<u>\$ 441,994</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Eddie Rogers, Taylor County Judge/Executive  
Members of the Taylor County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Taylor County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 22, 2002. We did not audit the financial statements of the Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation. Other auditors audited those financial statements and their report was furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Taylor County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

Reference Number 2001-1

- All Claims Should Be Presented To Fiscal Court For Review And Approval Prior To Payment

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Taylor County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 22, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Eddie Rogers, Taylor County Judge/Executive  
Members of the Taylor County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal  
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Taylor County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Taylor County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Taylor County's management. Our responsibility is to express an opinion on Taylor County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Taylor County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Taylor County's compliance with those requirements.

In our opinion, Taylor County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Taylor County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Taylor County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 22, 2002

## FINDINGS AND QUESTIONED COSTS





TAYLOR COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Taylor County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed in Accordance With Government Auditing Standards.
3. One instance of noncompliance material to the financial statements of Taylor County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the audit of the major federal awards programs for Taylor County expresses an unqualified opinion.
6. No audit findings relative to the major federal awards programs for Taylor County are reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant CFDA #14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Taylor County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCE

Reference Number 2001-1

All Claims Should Be Presented To Fiscal Court For Review And Approval Prior To Payment

During our test of expenditures, we noted thirteen claims totaling \$857,990 that were not reviewed and approved by Fiscal Court prior to payment. KRS 68.275 requires that all claims be reviewed and approved by Fiscal Court prior to payment. We recommend that the County submit all claims to Fiscal Court for review and approval prior to payment.

*County Judge/Executive Eddie Rogers' Response:*

*We are aware that this happened and it has been corrected.*

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



TAYLOR COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants:		
Green River (CFDA #14.228)	98-DC-21-0001(017)	\$ 479,998
Microenterprise (CFDA #14.228)	98-DC-21-0001(040)	<u>37,437</u>
Total U.S. Department of Housing and Urban Development		\$ 517,435
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
Alternative Program to Juvenile Detention (CFDA #16.523)	00-JB-VX-0021(201)	52,030
<u>U.S. Department of Commerce</u>		
Direct Program:		
Personal Responsibility In A Desirable Environment (CFDA #11.469)	CF00-47	15,000
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Targeted Capacity Expansion (CFDA #93.230)	5H79TI12354-02	<u>115,544</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 700,009</u></u>

TAYLOR COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - The federal expenditures for Targeted Capacity Expansion consisted of payments to the following subrecipient:

<u>Subrecipient</u>	<u>Number</u>	<u>Pass-Through Grant Amount</u>
Adanta	5H79TI12354-02	<u>\$ 115,544</u>

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

TAYLOR COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001


CERTIFICATION OF COMPLIANCE

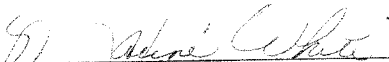
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

TAYLOR COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Taylor County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Eddie Rogers  
County Judge/Executive

  
Maxine White  
County Treasurer



CPA AUDIT REPORT  
TAYLOR COUNTY HOSPITAL DISTRICT

AND

TAYLOR COUNTY HOSPITAL DISTRICT  
HEALTH FACILITY CORPORATION

COMBINED FINANCIAL STATEMENTS

Taylor County Hospital District and Taylor County Hospital District  
Health Facility Corporation

Years ended June 30, 2001 and 2000 with Report of Independent Auditors

Taylor County Hospital District and  
Taylor County Hospital District  
Health Facility Corporation

Combined Financial Statements

Years ended June 30, 2001 and 2000

**Contents**

Report of Independent Auditors .....	1
Combined Financial Statements	
Combined Balance Sheets .....	2
Combined Statements of Operations and Changes in Fund Balance .....	4
Combined Statements of Cash Flows.....	6
Notes to Combined Financial Statements .....	8

## Report of Independent Auditors

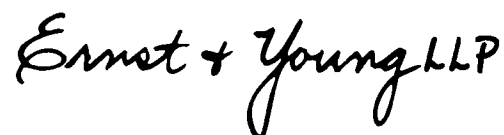
Board of Trustees  
Taylor County Hospital District

We have audited the accompanying general-purpose combined financial statements of the Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation (the Hospital) as of and for the years ended June 30, 2001 and 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of June 30, 2001 and 2000, and the combined results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2001 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



September 6, 2001

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Combined Balance Sheets

	June 30	
	2001	2000
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,669,412	\$ 2,785,257
Patient accounts receivable, less allowance for uncollectible accounts of \$3,032,000 in 2001 and \$2,930,000 in 2000	5,372,849	5,806,774
Inventories	479,648	661,416
Prepaid expenses and other current assets	552,251	405,329
Total current assets	<u>10,074,160</u>	<u>9,658,776</u>
Assets limited as to use:		
By Board of Trustees:		
Depreciation reserve fund	8,351,814	7,415,519
Retirement funds and unemployment compensation	507,722	593,364
Total assets limited as to use	<u>8,859,536</u>	<u>8,008,883</u>
Property and equipment:		
Land	411,362	411,362
Building and improvements	13,848,942	12,815,609
Equipment	16,338,719	15,337,380
	<u>30,599,023</u>	<u>28,564,351</u>
Less accumulated depreciation and amortization	18,924,112	17,294,295
	<u>11,674,911</u>	<u>11,270,056</u>
Construction in progress	-	124,165
Net property and equipment	<u>11,674,911</u>	<u>11,394,221</u>
Investment in JHHN Regional Service Center	405,000	112,000
Prepaid pension cost	122,804	-
Other assets	65,945	159,810
Total assets	<u><u>\$ 31,202,356</u></u>	<u><u>\$ 29,333,690</u></u>

	June 30	
	2001	2000
<b>Liabilities and fund balance</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,092,810	\$ 1,756,853
Accrued salaries, wages and withholdings	606,222	456,767
Accrued vacation and sick leave	619,747	615,380
Estimated amounts payable to Medicare and Medicaid	1,685,733	1,153,147
Current portion of long-term obligations	195,174	82,779
Total current liabilities	4,199,686	4,064,926
Long-term obligations, less current portion	8,899	189,926
Accrued pension cost	-	12,686
Fund balance	26,993,771	25,066,152

Total liabilities and fund balance	<u>\$ 31,202,356</u>	<u>\$ 29,333,690</u>
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*See accompanying notes.*

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**2. Accounting Policies (continued)**

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy. Charity care is not reported as net patient service revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. Charges for services furnished under the charity care policy at established rates were approximately \$525,000 and \$831,000 for 2001 and 2000, respectively.

**Functional Expenses**

The Hospital's general and administrative costs represented approximately 11% and 12% of total operating expenses in 2001 and 2000, respectively.

**Ad Valorem Taxes**

The Hospital received approximately 2% of its revenues from ad valorem taxes in 2001 and 2000. Such tax receipts are board designated for replacement, expansion and improvement of Hospital facilities and debt service of the Hospital. These funds were used as follows:

	<u>2001</u>	<u>2000</u>
Percentage used for debt service on long-term obligations	0%	2%
Percentage used for capital-related expenditures	100%	98%

The Hospital allows reductions to patient billings to the extent of taxes paid by the patient (up to a lifetime maximum of \$1,000). The Hospital allowed reductions of approximately \$115,000 and \$100,000 in 2001 and 2000, respectively, which are reported as reductions of gross patient service revenue.

**Tax-Exempt Status**

Pursuant to a determination letter dated March 23, 1992, the Hospital is considered tax-exempt under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in section 501(c)(3) of the Code.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**2. Accounting Policies (continued)**

**Reclassifications**

Certain 2000 amounts have been reclassified in the combined financial statements to conform with 2001 classifications.

**3. Medicare and Medicaid**

The Hospital participates in the Medicare and Medicaid programs (the Programs). In 2001, approximately 35% and 11%, respectively, of net patient service revenue was derived from services to patients covered by these Programs. In 2000, approximately 37% and 11%, respectively, of net patient service revenue was derived from services to patients covered by these Programs. In the health care industry, laws and regulations governing the Programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines and penalties. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Reimbursement from the Programs is determined from annual cost reports that are subject to audit by the Programs. The Hospital's management believes that amounts recorded in the financial statements for estimated settlements will approximate the final settlements for unsettled cost reports.

**Medicare**

Payments from Medicare for inpatient services are based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Beginning in the latter half of 2000, Medicare payments for most hospital outpatient services are made based upon the patient's diagnosis. Prior to the implementation of the diagnosis-based payments, Medicare payments for outpatient services were made based upon reimbursable costs. Such reimbursable costs were determined from annual cost reports filed with and subject to audit by the Medicare Program. The Hospital's cost reports have been audited and settled through June 30, 1998.



Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**3. Medicare and Medicaid (continued)**

**Medicaid**

Medicaid reimburses the Hospital on a prospectively determined rate per patient day (which is derived from Medicaid's defined cost) for inpatient services and based upon cost for outpatient services. Payments for such services are subject to audit by the Medicaid Program. Provision has been made for adjustments, if any, resulting from such audits.

The Commonwealth of Kentucky imposes a tax on health care providers at a rate of 2.5% for inpatient and outpatient revenue, as defined. Additionally, the legislation provides for a system of reimbursement for services provided to certain indigent patients. Transactions under this program for 2001 and 2000 were as follows:

	<u>2001</u>	<u>2000</u>
Payments received (or accrued) from KHCP included in net patient service revenue	<u>\$ 273,060</u>	<u>\$ 279,750</u>
Kentucky Provider Tax Program payments	<u>\$ 751,571</u>	<u>\$ 719,228</u>

**4. Accounts Receivable**

The Hospital provides services on account without collateral from its patients, most of whom are local residents. The mix of receivables from patients and third-party payors at June 30, 2001 and 2000 was as follows:

	<u>2001</u>	<u>2000</u>
Medicare	10%	12%
Medicaid	8%	8%
Anthem/Blue Cross	8%	11%
Private pay	49%	46%
Other	25%	23%
Total	<u>100%</u>	<u>100%</u>

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**5. Investment in JHHN Regional Service Center**

During fiscal 2000, the Hospital acquired a 5% interest in JHHN Regional Service Center (the RSC) through a cash payment of \$161,000 and a commitment to transfer inventory with a value of approximately \$172,000 in the future. During fiscal 2001, the Hospital transferred inventory with a book value of approximately \$189,000 and was reimbursed by the RSC for the difference between the actual value of the inventory transferred and the amount committed which amounted to approximately \$12,000. The RSC is a partnership that operates as a regional warehouse and distribution center. The Hospital's investment in the RSC is accounted for on the equity method as it is operated for the mutual benefit of the members of the joint venture. The Hospital purchased supplies from the RSC totaling \$1,342,500 and \$297,000 in fiscal years 2001 and 2000, respectively.

**6. Long-Term Obligations**

Long-term obligations at June 30, 2001 and 2000 consist of:

	<u>2001</u>	<u>2000</u>
Note payable to bank	\$ 189,909	\$ 272,705
Capital lease	14,164	—
	<u>204,073</u>	<u>272,705</u>
Less current portion	195,174	82,779
	<u>\$ 8,899</u>	<u>\$ 189,926</u>

The note payable to bank was repaid in full in August 2001.

The capital lease is payable in monthly installments of \$525, including principal and interest at 4.75%, through November 2003.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**7. Retirement Plan**

**Pension Plan Description**

The Taylor County Hospital District Health Facility Pension Plan (the Plan) is a single-employer defined benefit pension plan administered by the Principal Mutual Life Insurance Company covering substantially all of the Hospital's employees. The Plan provides retirement, disability and death benefits to plan participants and beneficiaries. The Hospital reserves the right to amend the Plan at any time. If the Plan is terminated, the plan assets will be distributed among the plan participants based upon a priority allocation procedure. The Hospital would then be liable for any unfunded vested benefits to the extent required by law.

**Funding Policy**

The contributions of the Hospital to the Plan meet the minimum funding requirements established by the Plan. The entire cost of the Plan is borne by the Hospital. Therefore, active plan members are not required to contribute to the Plan. The Hospital is required to contribute at actuarially determined amounts.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**7. Retirement Plan (continued)**

**Annual Pension Cost and Net Pension Obligation**

The Hospital's annual pension cost and net pension obligation of the Plan for the years ended June 30, 2001 and 2000 were as follows:

	<u>2001</u>	<u>2000</u>
Annual required contribution	\$ 166,672	\$ 185,824
Interest on net pension obligation	1,015	5,443
Adjustment to annual required contribution	<u>(3,177)</u>	<u>(17,040)</u>
Annual pension cost	164,510	174,227
Contributions made	<u>(300,000)</u>	<u>(229,578)</u>
Decrease in net pension obligation	(135,490)	(55,351)
Net pension obligation, beginning of year	<u>12,686</u>	68,037
Net pension (prepayment) obligation, end of year	<u><u>\$ (122,804)</u></u>	<u><u>\$ 12,686</u></u>

The annual required contributions for the years ended June 30, 2001 and 2000 and estimated liabilities as of January 1, 2001 and 2000 were determined as part of the actuarial valuations using the projected unit credit actuarial cost method. The actuarial assumptions used at January 1, 2001 and 2000 were as follows:

	<u>2001</u>	<u>2000</u>
Investment rate of return	8%	8%
Projected salary increases (retirement plan only)	4%	4%
Discount rate	8%	8%

The market value of plan assets is used to determine the actuarial value of assets as part of the funding method. The unfunded actuarial accrued liability is being amortized as a level dollar amount in accordance with ERISA amortization periods.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**7. Retirement Plan (continued)**

**Three-Year Trend Information**

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation (Prepayment)</b>
June 30, 1999	\$ 296,132	111%	\$ 68,037
June 30, 2000	\$ 174,227	111%	\$ 12,686
<b>June 30, 2001</b>	<b>\$ 164,510</b>	<b>182%</b>	<b>\$ (122,804)</b>

**Schedule of Funding Progress**

*(Dollars in Thousands)*

<b>Valuation Date</b>	<b>Actuarial Valuation Plan Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Total Unfunded Actuarial Accrued Liability (Funding Excess) UAAL (FE)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL (FE) as a Percentage of Covered Payroll</b>
January 1, 1999	\$ 3,781	\$ 3,376	\$ (404)	112.0%	\$ 8,978	(4.5)%
January 1, 2000	\$ 4,220	\$ 3,736	\$ (484)	112.9%	\$ 9,244	(5.2)%
<b>January 1, 2001</b>	<b>\$ 4,514</b>	<b>\$ 4,061</b>	<b>\$ (454)</b>	<b>111.2%</b>	<b>\$ 10,005</b>	<b>(4.5)%</b>

**8. Contingencies and Commitment**

The Hospital is insured against professional liability (malpractice) claims under a claims-made basis insurance policy. Liabilities for incurred but not reported losses are not determinable; however, in the opinion of management, such liabilities, if any, would not have a material effect on the Hospital's financial statements for the years ended June 30, 2001 and 2000. In the opinion of management, malpractice and general liability insurance coverage is adequate to cover losses, if any.

